

Message Text

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ACTION NEA-10

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USLO RIYADH

UNCLAS SECTION 1 OF 3 JIDDA 3020

E.O. 11652: N/A
TAGS: ENRG, SA
SUBJ: YAMANI SPEECH ON SAG OIL POLICY

1. FOLLOWING IS TEXT OF SPEECH ON SAUDI OIL POLICY PRESENTED
BY MIN PET YAMANI ON APRIL 20 IN RIYADH.

2. QUOTE: LIKE ANY OTHER GAME, THE OIL GAME HAS PARTICIPANTS.
"THE THREE MAIN ONES IN THIS CASE ARE THE EXPORTING
COUNTRIES, THE CONSUMING COUNTRIES AND THE OIL COMPANIES.
"TWENTY YEARS AGO, OIL COMPANIES PLAYED, NO DOUBT. THE
MAIN ROLE IN THE GAME. BUT SINCE THEN, MANY THINGS HAVE
CHANGED. THE OIL COMPANIES PLAY A RELATIVELY MINOR ROLE AT
PRESENT.

"THE INITIATIVE IS NOW AT THE HANDS OF THE EXPORTING
COUNTRIES. THE CONSUMER COUNTRIES, THOUGH POWERFUL AND
INFLUENTIAL, TRY AND COME TO TERMS WITH THE EXPORTING COUNTRIES.
SOMETIMES THIS IS DONE BY THREAT, OTHER TIMES IT IS DONE BY
TEMPTATION.

"THE EXPORTING COUNTRIES DO NOT REPRESENT A HOMO-
GENOUS WHOLE HOWEVER.

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"THERE ARE ARAB EXPORTING COUNTRIES, AND THERE ARE
NON-ARABS. THE ARE EXPORTING COUNTRIES WITH LARGE
PROVEN RESERVES AND COUNTRIES WITH SMALL AND LIMITED
RESERVES. THERE ARE COUNTRIES WITH THE POTENTIALS OF
NEW DISCOVERIES AND THOSE WHO HAVE ALREADY LOOKED UNDER
EVERY STONE. AND, OF COURSE, THERE ARE DIFFERENCES IN
POLITICAL CLASSIFICATION AS WELL.

"SOME EXPORTING COUNTRIES ARE LABELLED AS REVOLUTIONARY, OTHERS ARE CONSERVATIVE. THERE ARE DIFFERENCES IN OIL ITSELF. SOME HAVE ONE TYPE OF CRUDE, OTHERS HAVE MORE.

"THERE IS ALSO A DIFFERENCE IN THE LEVEL OF DEVELOPMENT AMONG OIL EXPORTING COUNTRIES. THESE DIFFERENCES GIVE EACH EXPORTING COUNTRY A DIFFERENT POSITION WITHIN THE OIL GAME, BASED ON HER SET OF INTERESTS WITH OTHER COUNTRIES.

"LET US TAKE SAUDI ARABIA, THE COUNTRY THAT CONCERNS US MOST AS AN EXAMPLE.

"SAUDI ARABIA IS AN OIL EXPORTING COUNTRY. SHE IS ALSO AN ARAB COUNTRY INVOLVED IN ARAB POLITICAL ISSUES THAT MAY NOT CONCERN OTHER OIL EXPORTING COUNTRIES, SUCH AS IRAN, INDONESIA AND VENEZUELA.

"SAUDI ARABIA HAS THE LARGEST PROVEN AND POTENTIAL OIL RESERVE ON EARTH. HER OIL POLICY THEREFORE ALWAYS TAKES THE LONG RUN IN CONSIDERATION, A SITUATION THAT GIVES THE KINGDOM A UNIQUE POSITION IN INTERNATIONAL RELATIONS AND WORLD ECONOMY.

"SAUDI OIL IS PRODUCED AT RATE MUCH HIGHER THAN THE COUNTRY NEEDS, CREATING MONETARY RESERVES THAT IN TURN CREATE IN DIFFERENT SET OF INVOLVEMENT AND INTERESTS THAT FEW OTHER OIL EXPORTING COUNTRIES SHARE WITH THE KINGDOM.

" SAUDI ATTITUDE VIS-A-VIS THE DOLLAR IS CURRENT
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EXAMPLE OF HOW SAUDI STANDS CAN DIFFER FROM OTHERS.

"IN ADDITION, THE KINGDOM IS ALSO KNOWN AS A POLITICALLY MODERATE, FREE ENTERPRISE-ORIENTED COUNTRY WHICH MAKES HER DIFFERENT FROM OTHER ARAB EXPORTING COUNTRIES WHO CARRY THE LABEL OF BEING REVOLUTIONARY.

"ANOTHER DIFFERENCE IS THE WIDER RANGE OF OIL PRODUCED IN SAUDI ARABIA. THERE ARE HIGH, MODERATE, HEAVY, VERY LIGHT AND OTHER TYPES OF CRUDE OIL THAT ARE BEING PRODUCED OR WILL BE PRODUCED IN SAUDI ARABIA. THIS INVOLVES SAUDI ARABIA IN OIL PRICING IN A MANNER MUCH DIFFERENT FOR SAY KUWAIT WHICH PRODUCES ONLY ONE TYPE OF CRUDE AND THEREFORE HAS A MUCH MORE LIMITED MARKET.

"AS WE GO ON DESCRIBING THE SPECIFIC FEATURES THAT DESCRIBE SAUDI ARABIA'S ROLE AS AN OIL EXPORTING COUNTRY IN THE OIL GAME, IT MUST MENTIONED THAT SAUDI OIL IS EXPORTED THROUGH ONE OUTLET-- THE ARABIAN GULF. WHICH CAN BE BLOCKADED. THIS IS DIFFERENT SITUATION FROM SAY ALGERIA'S, LIBYA'S OR VENEZUELA'S. AND IT IS ONE REASON WHY OTHER EXPORT OUTLETS ON THE RED SEA ARE BEING MADE TO LESSEN THE EXTENT OF THIS DEPENDENCY.

"IN ADDITION, SAUDI ARABIA IS MORE OF AN UNDER-DEVELOPED COUNTRY THAN SOME OF THE OTHER EXPORTING COUNTRIES LIKE VENEZUELA, ALGERIA OR IRAN. ACCORDINGLY, SAUDI OUTLOOK TOWARDS THE ENERGY ISSUE AND THE PRICE OF OIL MAY DIFFER FROM THAT OF MORE DEVELOPED COUNTRIES.

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" SAUDI ARABIA HAS AT LEAST ONE GENERATION AHEAD OF HER TO DEVELOP ALTERNATE SOURCES OF INCOME. THIS MIGHT BE ONE KEY REASON FOR THE MODERATE AND LONG-RUN VIEWS THAT BECOME PART OF THE SAUDI DECISION MAKING PROCESS.

".ONE MUST ALSO MENTION THE FACT THAT SAUDI ARABIA IS AN ISLAMIC COUNTRY. ACTUALLY, ABOUT 70 PERCENT OF WORLD OIL RESERVES LIES IN ISLAMIC COUNTRIES. BUT THIS FACT DOES NOT FIGURE IN ANY IMPORTANT WAY ON WORLD OIL STRATEGY.

" IF WE LOOK AT OIL CONSUMING COUNTRIES, WE FIND THAT THERE ARE FEWER DIFFERENCES AMONG THEM. THEY ARE BASICALLY CONSUMING COUNTRIES THAT ARE PART OF THE INDUSTRIALISED WORLD OR PART OF THE DEVELOPING THIRD WORLD.

"THE INDUSTRIALISED COUNTRIES ARE EITHER FULLY DEPENDENT ON OIL AS A SOURCE OF ENERGY LIKE JAPAN AND MOST OF EUROPE OR ONLY PARTIALLY DEPENDENT.

"NOW IF WE TURN TO THE OIL COMPANIES, WE FIND THEM AN INTERNATIONAL COMPANIES LIKE THE SEVEN SISTERS, OR INDEPENDENTS OR NATIONAL COMPANIES OF CONSUMING COUNTRIES.

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"THESE COMPANIES DID PLAY THE DOMINANT ROLE DURING THE PAST STAGE OF THE OIL GAME. THEY USED TO BE COUNTRIES WITHIN COUNTRIES.

"SINCE THE EARLY 70S, THE SITUATION HAS CHANGED. WE ARE NOW IN COMPLETE CONTROL OF OUR NATIONAL WEALTH. OIL COMPANIES HAVE NOT ONLY LOST CONTROL OVER PRODUCTION FACILITIES AND SITES OR WHAT IS CALLED 'UPSTREAM' BUT THEIR CONTROL OF MARKETING OUTLETS IS ALSO BEING CHALLENGED, SPECIALLY IN COUNTRIES LIKE THE U.S. WHERE OIL COMPANIES ARE BEING USED AS THE SCAPEGOATS OF THE ENERGY CRISIS AND WHERE CERTAIN ZIONIST PRESSURE GROUPS ARE TRYING TO EMBRACE SUCH OIL COMPANIES BECAUSE OF THEIR PROCLAIMED SYMPATHY FOR ARAB CAUSES- SYMPATHY THAT IS, OF COURSE, CLOSELY TIED WITH THE COMPANIES OWN ECONOMIC INTERESTS.

"THOUGH NOT AS PROMINENT AS THEY USED TO BE, OIL COMPANIES STILL PLAY A BASIC ROLE IN THE OIL GAME. FOR ONE THING. THESE COMPANIES REPRESENT A SOURCE OF OIL TECHNOLOGY, THE PRODUCING COUNTRIES CANNOT REPLACE FOR A LONG TIME TO COME.

"THEY ALSO HAVE EXTENSIVE DISTRIBUTION NETWORKS THAT EXPORTING COUNTRIES HAVE NO SUBSTITUTE FOR.

"SO, THESE ARE THE MAIN PARTIES TO THE OIL GAME. THE RELATIONSHIP AMONG THESE THREE PARTIES IS WHAT MAKES THE OIL GAME.

"FOR EXAMPLE, IT IS VERY IMPORTANT FOR THE EXPORTING COUNTRIES NOT TO ISOLATE THEMSELVES FROM THE DEVELOPING THIRD WORLD. IN 1973. THE U.S. TRIED TO CREATE SUCH AN ISOLATION WHEN IT CALLED THE WASHINGTON ENERGY CONFERENCE. THE U.S. OBJECTIVE WAS OF COURSE TO GATHER THE INDUSTRIALISED WORLD ALONG WITH OIL CONSUMING THIRD WORLD COUNTRIES UNDER ONE FLAG TO PRESSURE FOR HIGHER PRODUCTION LEVELS AND LOWER
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PRICES. IT WAS AN ELABORATE MOVE BASED ON AN UNDERSTANDING OF WORLD OIL STRATEGY.

"ALGIERS COUNTERACTED BY PROPOSING THE UN AS THE BEST PLATFORM FOR DISCUSSING NOT ONLY WORLD ENERGY SITUATION BUT ALSO THE GENERAL WORLD ECONOMIC PROBLEMS. THE AIM WAS TO AVOID DISCUSSING OIL IN ISOLATION AND GET THE PROCESS ENTANGLED IN THE UN'S SLOW MACHINERY.

"SAUDI ARABIA'S ATTITUDE AND REACTION WERE DIFFERENT. SHE CALLED FOR A SERIOUS CONFERENCE BETWEEN

THE WORLD'S DEVELOPED COUNTRIES AND THE DEVELOPING COUNTRIES TO DISCUSS ENERGY, RAW MATERIALS, TRANSFER OF TECHNOLOGY AND INTERNATIONAL FINANCE ISSUES IN WHAT WAS LATER CALLED THE NORTH-SOUTH DIALOGUE.

" IN THAT MANNER, SAUDI ARABIA MANAGED TO CHANGE THE EMPHASIS FROM A WORLD ALLIANCE AGAINST OIL PRODUCING COUNTRIES AND TO TIE IN BETWEEN THE INTERESTS OF OIL PRODUCING COUNTRIES AND THOSE OF OTHER THIRD WORLD COUNTRIES.

"WE ALSO FIND THE U.S. WHICH IS NOT AS DEPENDENT ON OIL AS OTHERS AND THEREFORE HAS MORE FREEDOM OF MOVEMENT, SUPPORTING THE INTERNATIONAL ENERGY AGENCY AND A STRATEGY OF CONFRONTATION WITH THE OIL EXPORTING COUNTRIES.

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SUCH CALLS FOR CONFRONTATION TAKE THE FORM OF DIRECT AND INDIRECT MILITARY AND ECONOMIC THREATS. OTHER CONSUMING COUNTRIES REFUSED TO JOIN THE AGENCY. WHILE STILL SOME OTHERS JOINED. THEY DONT' SUPPORT THE STRATEGY OF CONFRONTATION FAVOURED BY THE AMERICANS.

" THEREFORE, WHEN SAUDI ARABIA PLAYS HER HAND IN THE GAME, IT MUST TAKE INTO CONSIDERATION THE DIFFERENT AND CHANGING VARIABLES OF THE GAME WHICH MAY MAKE A COUNTRY FROM THE CONSUMING SIDE CLOSER TO HER THAN AN ARAB OIL EXPORTING COUNTRY.

"SAUDI ARABIA'S LOOK TO THE FUTURE MUST BE BASED ON A FULL VIEW OF THE GAME, THE CONTINUOUSLY CHANGING

VARIABLES AND THE DEVELOPING INTERESTS. ONLY WITH SUCH AN UNDERSTANDING CAN WE PREDICT THE FUTURE. "NOW LET US LOOK AT THE OTHER GROUP OF CONSUMING COUNTRIES, NAMELY THE SOVIET UNION, EASTERN EUROPE AND COMMUNIST CHINA. AT PRESENT, THE USSR EXPORTS OIL NOT ONLY TO HER EUROPEAN SATELLITES BUT ALSO TO SOME WESTERN COUNTRIES. CHINA DOES THE SAME. "THIS IS WHY THE USSR HAD A REAL INTEREST IN THE OIL PRICE INCREASE OF 1973-74. IT MEANT AN UNCLASSIFIED

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INDUCEMENT TO SOVIET ECONOMY. ON THIS POINT, THERE WAS A COMMON GAIN BETWEEN THE USSR AND THE U.S. FROM THE PRICE INCREASE. FOR THE U.S. IT MEANT A DEMAND FOR THE DOLLAR, A CHANCE TO MAKE IT FEASIBLE TO DEVELOP AND USE OTHER ENERGY SOURCES PLUS OF COURSE THE TAXES ON THE HUGE PROFITS MADE BY AMERICAN OIL COMPANIES. "SO, IN THE PARTICULAR INSTANCE, AMERICAN-SOVIET INTERESTS WERE CLOSER THAN AMERICAN INTERESTS WITH HER EUROPEAN ALLIANCES. "BUT NOW THE PICTURE IS CHANGING. SOVIET OIL PRODUCTION IS DECLINING AND ACCORDING TO MOST REPORTS, THE USSR WILL SHORTLY BECOME AN OIL IMPORTING COUNTRY. "ACCORDINGLY, SOVIET STRATEGY IS CHANGING AND SO ARE HER POLITICAL AND ECONOMIC MOVES. WE HEAR NOW OF THE SOVIET UNION'S LEGITIMATE INTEREST IN SECURING ITS NEED OF MIDDLE EASTERN OIL. SUCH LEGITIMATE INTERESTS, ACCORDING TO THIS ARGUMENT, GIVE HER THE RIGHT TO MOVE TO SECURE THEM. THE LATEST DEVELOPMENT IN THE HORN OF AFRICA MAY BE ONLY ONE STEP FOLLOWED BY OTHERS. HOW FAR THIS PARTICULAR PLAY IN THE GAME WILL GO IS CERTAINLY AN ACTIVE ISSUE IN THE WEST AS IT IS HERE. "IN ALL OF THIS SAUDI ARABIA'S MOVES ARE A SUBJECT OF THE LAW OF SUPPLY AND DEMAND. OUR STRENGTH AS AN OIL EXPORTING COUNTRY COMES FROM THE SIZE OF DEMAND AND SUPPLY OF OIL NOW AND IN THE FUTURE. "AT THIS POINT IN TIME, SAUDI ARABIA CAN TO A GREAT EXTENT INFLUENCE THE SUPPLY AND DEMAND FOR OIL. HIGHER PRODUCTION WILL AUTOMATICALLY MEAN HIGHER SUPPLY AND LOWER PRICE WHILE A PRODUCTION CEILING OF FIVE MILLION BARRELS A DAY, FOR EXAMPLE, WILL PUSH PRICES UPWARD. "THE QUESTION REMAINS AS TO WHAT WE EXPECT TO UNCLASSIFIED

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SEE HAPPENING IN THE LATE 80S? THE STUDIES ARE
MANY, WHETHER THE ONES CONDUCTED BY US OR BY OTHERS
OR BY OPEC MEMBERS WHO WILL MEET IN TAIF TO DISCUSS
THIS ISSUE.

"MY VIEW IS THAT IF NO ALTERNATE SOURCES OF ENERGY
ARE DEVELOPED OR DISCOVERED, AND IF THE WESTERN
COUNTRIES DO NOT REDUCE SIGNIFICANTLY THEIR CONSUMPTION
OF OIL, THE DAY MAY COME TOWARDS THE END OF THE 1980S
WHEN THE WORLD WILL SEE AN (ALL OUT OIL WAR' WHERE THE
STRONG WILL FIGHT OVER THE WEALTH OF THE OIL EXPORTING
COUNTRIES." END QUOTE.

3. COMMENTS FOLLOW BY SEPTTEL.
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